

Japan's Economic Recovery and the TPP¹

Shujiro Urata[†]

Japan has been experiencing sluggish economic growth for the last two decades after bursting of a bubble economy in the early 1990s. The Japanese economy started to show a sign of recovery since December 2012, when Mr. Shinzo Abe took over Prime Ministership. Faced with a number of structural problems including aging population, serious fiscal situation, inflexible labor market, regulated and protected markets, Japanese economy is in a very difficult situation to achieve high and sustained growth. One effective policy to achieve sustained economic growth is to implement Prime Minister Abe's growth strategy, third arrow of his three-arrow strategy. Specifically, speedy conclusion of the TPP and RCEP negotiations, which are under way, and effective implementation of structural policy reform would enable Japan to continue its economic recovery and to achieve sustained economic growth.

I. Introduction

The Japanese government joined the Trans-Pacific Partnership (TPP) negotiations in July 2013. It took the Japanese government 2 years 4 months to make the decision formally to apply for the participation in the TPP negotiations since a former Prime Minister Naoto Kan of the Democratic Party of Japan indicated an interest in joining the TPP negotiations in November 2010. Since Mr. Kan's announcement, the TPP issue has led to heated debate between pro and anti TPP groups. Indeed, this debate has attracted so much attention of the Japanese people that it is described as the debate dividing the public opinion into two. Roughly speaking, the debate takes the following; competitive business (pro-TPP) vs. non-competitive agriculture (anti-TPP). It was current Prime Minister Shinzo Abe of the Liberal Democratic Party that formally announced his intention of joining the TPP negotiation in March 2013, after he became Prime Minister in December 2012 by winning a Lower House Election. The Japanese government had to wait for 90 days before formally being accepted into the TPP negotiation by the negotiating members. Prime Minister Abe seems to consider the TPP one of the most important foreign economic policy agendas, if not the most important agenda, as he has assembled a team of approximately 120 government staff for the TPP negotiation and assigned Mr. Akira Amari, a senior LDP member, a minister in charge of the TPP negotiation.

In light of the importance of the TPP in current policy discussions in Japan, this paper attempts to examine the economic issues concerning the TPP in Japan. Section II discusses the problems facing the Japanese economy, which performed very badly in the last two decades. Indeed, a long recession,

[†] Graduate School of Asia-Pacific Studies, Waseda University

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which started after the bursting of a bubble economy in the early 1990s, lasted for about twenty years, and as such these twenty years are described as the lost two decades for the Japanese economy. The analysis in section II sets the stage for the discussions of the TPP, or free trade agreements (FTAs) in general, because FTAs, particularly the TPP, have been considered important policies for the Japanese economy to recover from the recession and to get back on the economic growth trajectory. Section III examines Japan's FTA policies, as the TPP is one of the most important FTAs for the Japanese economy. After reviewing Japan's FTA developments, some notable characteristics of Japan's FTAs are discussed. The discussions reveal that the TPP is a big challenge for the Japanese government, as it seeks to achieve a very high-level of trade liberalization, a level that Japan has not been able to achieve so far. Section IV discusses the economic benefits that Japan can expect from joining the TPP. In addition to examining somewhat theoretically the expected benefits, estimated impacts by using a simulation model are presented. As was mentioned above, there are groups in Japan that oppose the TPP. Section V identifies these groups and examines their reasons for the opposition. Recognizing the opposition, section VI provides possible ways to deal with the opposition and to play active and constructive role in concluding the TPP negotiations. Section VII concludes with some remarks.

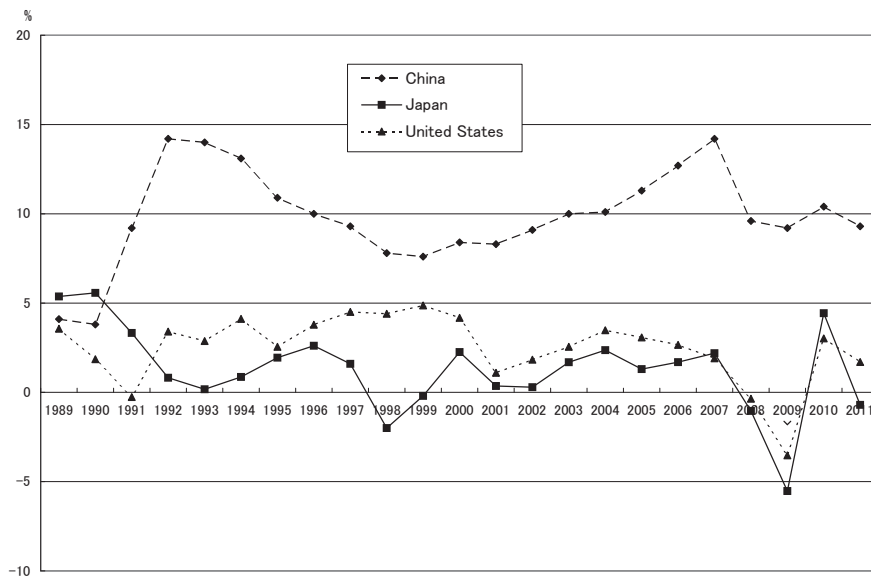
II. Pessimistic Future Prospects of the Japanese Economy

The Japanese economy is faced with a number of structural problems, which have to be overcome in order for the Japanese economy to recover and get back on a growing trajectory. Since the collapse of the bubble economy in the early 1990s, the Japanese economy has been struggling with low growth for over 20 years (Figure 1 and Figure 2). The most significant structural problems are an aging and shrinking population. Economic growth is achieved through a mutual relationship between the factors of the supply side and the demand side, but the situation is severe for both these sides. On the supply side, to achieve economic growth it is necessary to increase labor input, to increase capital input, or to raise productivity, but the aging and shrinking population is making it hard to increase labor input or capital input. The Japanese population fell in 2005, and although it temporarily rose in 2006, it has been falling continuously since 2007 (Figure 3). According to the estimates of the National Institute of Population and Social Security Research, the current population of over 120 million people will drop below 100 million in 2046, and will become 90 million in 2055². Meanwhile, the labor force has been shrinking since 1995, and is predicted to continue to fall in the future as well. If population decline cannot be reversed, it would be difficult to increase labor input without promoting labor by women and the elderly or receiving foreign workers.

To increase capital input, domestic saving or investment from abroad is necessary, but Japanese domestic saving is decreasing due to the progression of the aging population, and the influx of capital

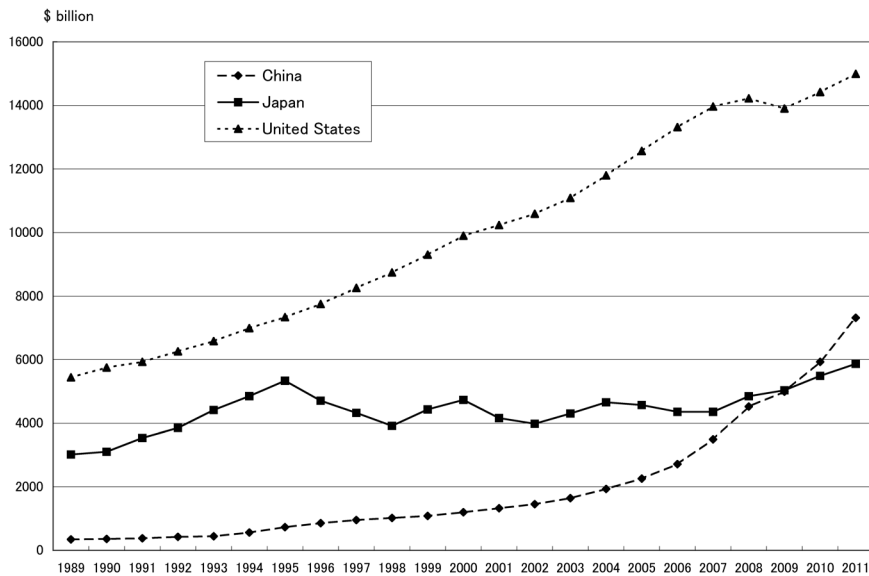
² National Institute of Population and Social Security Research, "Nihon no ShoraiSuikeiJinko (Heisei 18 nen 12 gatsusuikei) chuisuikai [Japan's Future Projected Population (December 2006 Projection) Central Projection]" <http://www.ipss.go.jp/syoushika/tohkei/suikai07/suikai.html#chapt1-1>

Figure 1 GDP Growth Rates for Selected Countries



Source: World Bank, World Development Indicators on line

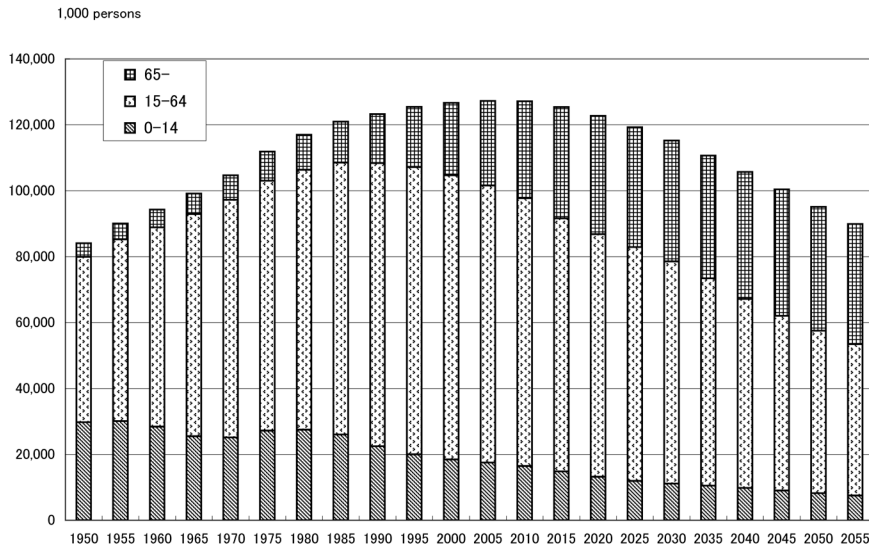
Figure 2 GDP of Japan, China, and the US



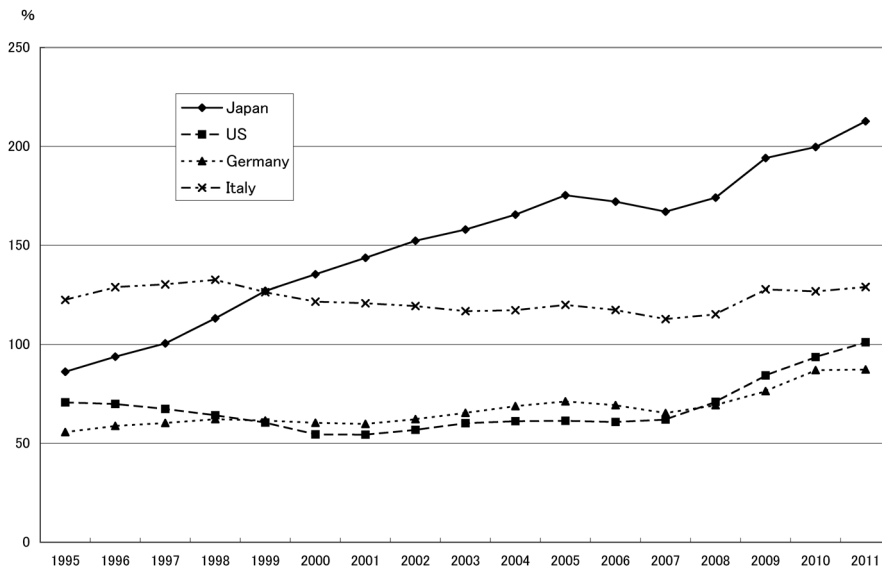
Source: World Bank, World Development Indicators on line

from overseas is also weak due to the uncertain future of the Japanese economy. The overall domestic savings rate was 33.7% in 1990, a high figure even among the developed countries, but has steadily dropped, reaching 21.4% in 2010.³

³ World Bank, *World Development Indicators Online*.

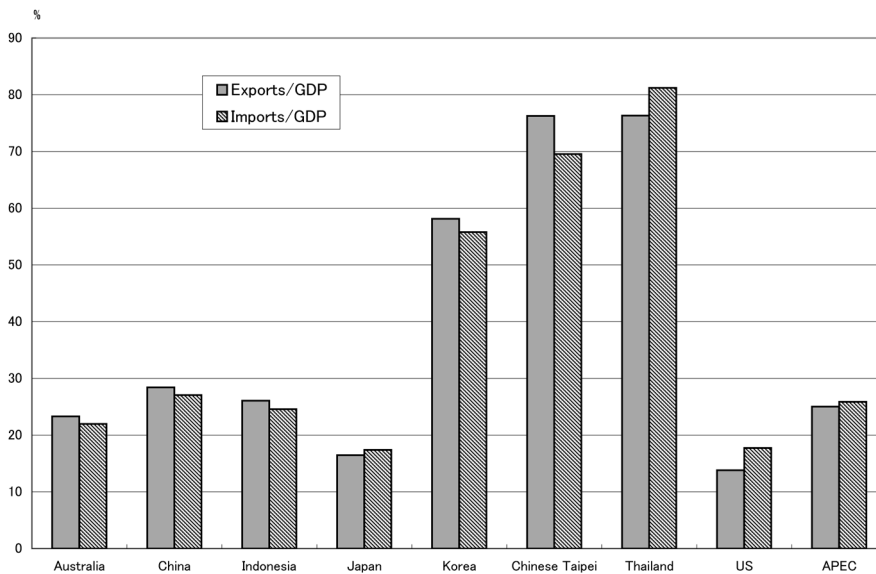
Figure 3 Japan's Population: Past Trend and Future Projections

Source: Statistics Bureau, Ministry of Internal Affairs and Communication

Figure 4 Government Debt-GDP Ratios for Selected Countries

Source: OECD

Economic growth cannot be expected from the demand side either. Due to population decline and a low growth rate, consumption is not growing, and due to the fact that future consumption will not increase, it is expected that investment will stagnate. Also, the government is saddled with enormous debt exceeding double the GDP, and so it is difficult to expand spending in a manner that would lead to real demand (Figure 4). Since it is expected that public spending on social security and healthcare will increase due to the rapid progression of the aging of the population, if the integrated reform of so-

Figure 5 Trade (Goods and Services)-GDP Ratios for Selected APEC Economies: 2011

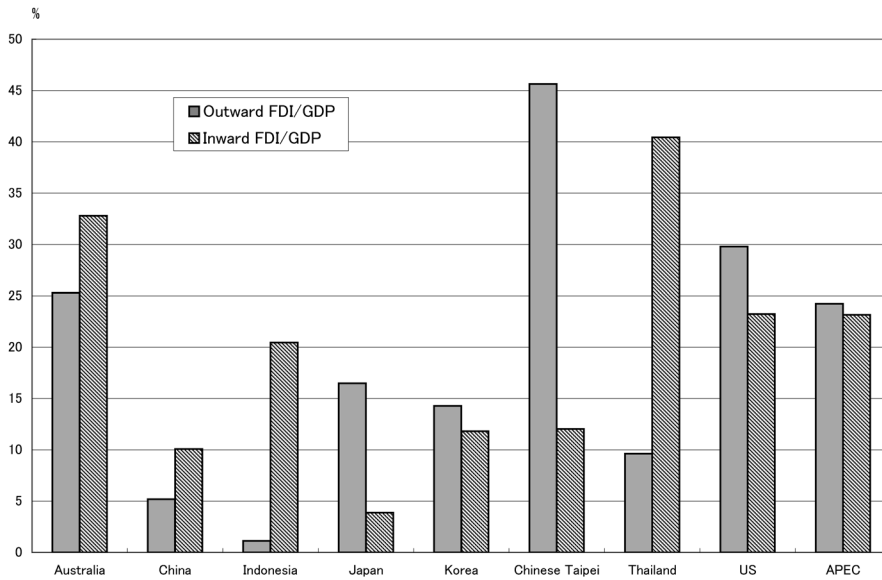
Source: APEC, APECStat on line

cial security and taxes currently being debated is not implemented, the fiscal situation will worsen, and the likelihood of economic growth will become ever smaller.

Also, amidst the circumstances of rapidly progressing globalization, due to the “closedness” of its market and society, Japan remains unable to take advantage of the opportunities granted by globalization for the mutual exchange with other countries of important factors for economic activity including goods, services, capital and people. This can be understood from the fact that the proportion of trade and foreign direct investment as a share of GDP is lower in Japan than in other countries. Specifically, exports (goods and services)-GDP and imports (goods and services)-GDP ratios for Japan in 2011 were 16.5 and 17.4 percent, respectively (Figure 5), which are lower than APEC averages of 25.0 and 25.9 percent, while outward FDI stock-GDP and inward FDI stock-GDP ratios for Japan were 16.5 and 3.9 percent, respectively, which are significantly lower compared to the APEC averages of 24.2 and 23.2 percent (Figure 6).⁴

The circumstances in which the Japanese economy is placed are quite severe, and it was understood that just maintaining the status quo would force a pessimistic view of its future. To escape from this situation and realize economic prosperity in the future, it is necessary to promote economic activity and increase productivity through furthering structural reforms and market opening. It is also effective to intensify economic exchanges with Asia, where high growth is expected in the future. One important policy to achieve these objectives is participating in FTAs including the TPP and RCEP.

⁴ APEC, APECStat on line.

Figure 6 FDI Stock–GDP Ratios for Selected APEC Economies: 2011

Source: APEC, APECStat on line

III. Japan's FTAs

Japan became interested in FTAs at the end of the 1990s⁵. Japan's first FTA was with Singapore, and it came into force in November 2002. Following this, Japan's FTA negotiations centered on the countries of ASEAN, and as of June 2013, 13 FTAs had come into effect, 12 bilateral FTAs, each with Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Brunei, the Philippines, Switzerland, Vietnam, India, and Peru (in the order of establishment) as well as one regional FTA with ASEAN (Table 1). Japan is currently negotiating FTAs with South Korea, Australia, the countries of the Gulf Cooperation Council (GCC), Mongolia, Canada, Colombia, China-South Korea (CJK FTA), the European Union, ten ASEAN member countries and five countries including China, South Korea, India, Australia and New Zealand under the Regional Comprehensive Economic Partnership (RCEP) and the TPP. FTA negotiations with South Korea began in December 2003, but were broken off in November 2004 due to opposing opinions on the negotiation framework and have not restarted thereafter. In the cases of CJK FTA, Japan–EU FTA, and the RCEP, there were political and economic obstacles to the agreement in prospective FTA partner countries to start negotiations, but with one reason being Japan having indicated strong interest in joining the TPP, these were overcome. These prospective FTA partners were eager to include economically influential Japan through FTAs before Japan would join the US-led TPP negotiations. Japan had to overcome strong opposition from agricultural and medical sectors, in order to join the TPP negotiations.

⁵ See Urata (2011a) and Kawai and Urata (2012) on Japan's FTA policies.

Table 1 Japan's FTAs

	FTA Partners	Start of negotiations	Signing of agreement	Enactment of agreement
In action	Singapore	Jan 2001	Jan 2002	Nov 2002
	Mexico	Nov 2002	Sep 2004	Mar 2005
	Malaysia	Jan 2004	Dec 2005	Jul 2006
	Chile	Feb 2006	Mar 2007	Sep 2007
	Thailand	Feb 2004	Apr 2007	Nov 2007
	Indonesia	Jul 2005	Aug 2007	Jul 2008
	Brunei	Jun 2006	Jun 2007	Jul 2008
	ASEAN	Apr 2005	Apr 2008	Dec 2008
	Philippines	Feb 2004	Sep 2006	Dec 2008
	Switzerland	May 2007	Feb 2009	Sep 2009
	Vietnam	Jan 2007	Dec 2008	Oct 2009
	India	Jan 2007	Feb 2011	Aug 2011
	Peru	May 2009	May 2011	Mar 2012
In negotiation	South Korea	Dec 2003*		
	GCC	Sep 2006		
	Australia	Apr 2007		
	Mongolia	Jun 2012		
	Canada	Nov 2012		
	Colombia	Dec 2012		
	China-Japan-S. Korea	Mar 2013		
	EU	Apr 2013		
	RCEP	May 2013		
	TPP**	Jul 2013		

Notes: * Negotiations with South Korea was suspended in November 2004.

** TPP Negotiations began in March 2010. Japan joined the TPP negotiations in July 2013.

Source: Ministry of Foreign Affairs and newspaper reportings.

Traditionally, Japan's trade policy proceeded under the principle of non-discrimination between all member countries in the framework of the GATT/WTO multilateral trading system, although there were exceptional cases where special trade measures such as voluntary export restraints were adopted bilaterally with the US to deal with trade frictions. However, it now proceeds in a multi-layered manner, pursuing discriminating frameworks resulting from bilateral/regional FTAs, which are recognized under certain conditions by GATT and the WTO. There are a number of causes behind Japan becoming interested in FTAs. One is the rapid increase in FTAs in the various regions of the world. Under the circumstances of virtually stalled WTO trade liberalization negotiations, many countries with an interest in liberalization have started establishing FTAs. As a result, Japan has also become interested in FTAs in order to secure export markets. Furthermore, the international movements of investment and people, for which rules under the WTO have not been established, have intensified in international economic activities, and so Japan and other countries have a heightened interest in FTAs in order to set the rules on them.

By concluding FTAs with developing countries such as the ASEAN countries where barriers to trade and investment are still high despite the progress of liberalization, it is possible to establish an environment in which it is easy for Japanese firms that have entered into these countries to conduct business activities. Also, there are hopes that FTAs, which further an opening up to other countries, can play a

complementary role in promoting the domestic structural reforms necessary for activating the Japanese economy. Furthermore, in the FTAs with developing countries in East Asia such as ASEAN and India, there is also the intention to aid the economic development of partner countries through economic cooperation. By actualizing the high latent growth potential of the East Asian countries, not only can an increase in Japanese exports be expected, but social and political stability in the East Asian region can also be realized. In addition to economic motives, there is the non-economic motive to concluding FTAs of building close political and social relations with FTA partner countries.

Two important observations regarding Japan's FTAs are to be noted. First, the FTA coverage ratio, that is, the proportion of trade covered by FTAs, for Japan is small. As noted earlier, Japan has enacted 13 FTAs with 15 countries. The proportion of trade with these 15 countries in Japan's overall trade stood at 18.6 percent based on the statistics for 2010. This FTA coverage ratio for Japan is substantially lower compared with the United States (38.8%), South Korea (34.0%), and ASEAN (60.0%), while it is slightly higher compared with China (16.2%) and India (17.9%). Japan's low FTA coverage ratio is due to the absence of FTAs with its large trading partners such as the US, China, and the EU. Difficulty in liberalizing agriculture market, which is demanded by many potential FTA partners, has precluded Japan from establishing FTAs with those countries. If all the FTAs, which are in negotiation, are successfully enacted, Japan's FTA coverage ratio would rise to approximately 80 percent.

Another notable characteristic of Japan's FTAs, which is related to the observation just made, is low level of trade liberalization. Japan has excluded politically sensitive agricultural products from trade liberalization. Table 2 depicts the FTA liberalization rate, defined as the share of imports for which tariffs have been eliminated in total imports vis-à-vis FTA partners, on a product basis and an import val-

Table 2 Trade Liberalization Ratios for Japan's FTAs

FTA Partners	Tariff line	Trade Value			Data years used for the computation
	Japan	Japan	Partner	Total*	
Singapore	84.4	94.7	100	99	2005
Mexico	86.0	86.8	98.4	96	2002
Malaysia	86.8	94.1	99.3	97	2004 (Japan), 2003 (Malaysia)
Chile	86.5	90.5	99.8	92	2005
Thailand	87.2	91.6	97.4	95	2004 (Japan), 2003 (Thailand)
Philippines	88.4	91.6	96.6	94	2003
Brunei	84.6	99.99	99.9	99.9	2005
Indonesia	86.6	93.2	89.7	92	2004.5–2005.4
ASEAN	86.5	93.2	約 91	—	2006 (Japan), 2005/2006 (ASEAN)
Switzerland	85.6	99.3	99.7	99	2006
Vietnam	86.5	94.9	87.7	92	2006
India		97.5	90.3	94	2006
Peru		99.7	99.9	99.8	2008

Notes: Proportion of tariff lines/import values in total tariff lines/import values within 10 years.

* means approximate figures.

Sources: Data on tariff lines come from Ministry of Foreign Affairs, and data on import values come from Ministry of Economy, Trade and Industry.

ue basis. For Japan's FTAs, the FTA liberalization rate on a product basis is around 85%, and is no greater than 90%. Although not shown in the table, the liberalization rates of the FTAs of developed countries including the US, the EU, Australia, and New Zealand range from around 95% to 100%. There is a prevailing view that TPP would require at least 95 percent liberalization rate, making it difficult for Japan to join the TPP. Looking at the liberalization rate on a trade value basis (since it is not easy to obtain information regarding the liberalization rate on a product basis for Japan's FTA partners), it can be seen that in many cases, the FTA liberalization rate for Japan is lower than that of partner countries.

IV. The benefits of Joining the TPP

When considering the advantages and disadvantages of joining the TPP for Japan, it is important to consider the TPP to be a path towards the establishment of the Free Trade Area of Asia-Pacific (FTAAP). If the FTAAP, which provides a free and open business environment, is created, there is a high likelihood of developing into a global free trade area in the future due to the large share of the world economy held by the countries/regions belonging to it. With the FTAAP formed as a development of the TPP, rules would be established not only for trade liberalization but also domestic economic system, and so if the FTAAP expands globally, it would result in the creation of an economic system that goes a step beyond the WTO in the form of a true global economic system. Here, the significance of the TPP to Japan is considered in light of suppositions such as those above.

The TPP would expand trade and promote economic growth among its members due to bringing about market opening among those members.⁶ The following discussion treats Japan as the subject, but the same effect can also be expected for the TPP members. Indeed, the TPP would have the effect of promoting the growth of each of its members, and so this effect would act synergistically and lead to even greater results for the membership. If the TPP is formed, export opportunities for Japanese corporations would expand through the market opening of the participating countries, and at the same time imports of foreign products would expand through the opening of the Japanese market. The expansion of exports from Japan would lead to growth in the Japanese economy through expanding employment and production. Meanwhile, an expansion in imports would reduce the production of domestic products that compete with imports, and would have the possibility of negatively affecting employment. However, if workers and funds shift from the production of import-competing goods for which demand is shrinking to the production of export goods for which demand is rising, workers and funds will be used efficiently, and growth can be expected for the economy as a whole. Regarding the effect of the TPP on the Japanese economy, the results of a variety of studies have been reported. An estimate by the Cabinet Office using a computable general equilibrium (CGE) model is 0.66 percent increase in Japan's GDP, and this is what would result if the mechanisms mentioned above were in op-

⁶ Regarding an empirical analysis of the effect of Japan's FTAs on Japan's trade, see Urata (2011b).

eration. Such an effect is called the static effect of trade liberalization.

There are factors that are important as effects of the TPP, but are not taken into consideration in a CGE model analysis by the Cabinet Office, and as a result, there is the high likelihood that the Cabinet Office's projections are underestimations. First, there is the high probability of increased productivity as a result of an expansion in exports and imports, but such an effect of increased productivity is not taken into account. By expanding contact with overseas markets through exporting, exporting companies acquire information about efficient technology and management know-how, and so are able to increase productivity. Also, in order to prevail in intense competition in overseas markets, companies must achieve increased productivity. Furthermore, if the amount of production increases as a result of exporting, it would become possible to enjoy the benefits of scale economies and further increase productivity. Meanwhile, an expansion of imports would lead to stronger competitive pressure on competing domestic companies, which would cope with by introducing efficient techniques and developing new technology and new products. As a result, productivity would rise. Such an effect is called the dynamic effect of trade liberalization. There is a common view that this effect would greatly continue over the long term.

As an effect that is included in the Cabinet Office estimates, it is necessary to touch on the trade diversion effect, which arises from favoring member countries and discriminating against non-member countries as in the TPP.⁷ Participation in the TPP by Japan would result in the elimination of tariffs on imports from TPP member countries, but the existing tariffs would be maintained for imports from non-member countries, and so products imported from non-member countries would be replaced by products from member countries. As a result, consumers would benefit from becoming able to purchase imported goods at a low price. Meanwhile, producers would incur losses due to decreased production and prices resulting from increased imports, and the Japanese government would experience a loss due to losing tax revenue. Here, if the total of the losses exceeds the benefits, it would be a detriment to Japan as a whole. The likelihood of losses resulting from the trade diversion effect becomes greater if the efficient producers are in non-member countries, in other words if efficient producers are not included in the TPP. Since Japan imposes a high tariff on agricultural products, if countries that are efficient in the production of such products are included as TPP members, there would be a low likelihood of losses due to the trade diversion effect. Also, one important policy implication derived from this discussion is that in order to mitigate/avoid losses due to the trade diversion effect, it is effective to increase the membership of the TPP. In other words, by increasing membership, the likelihood of excluding efficient countries decreases.

It must be noted that through the trade diversion effect, countries excluded from the TPP or an FTA would incur losses due to an inevitable decrease in exports. Indeed, this negative impact of exclusion from an FTA has led to the proliferation of FTAs, as those countries excluded from FTAs set up new

⁷ Incidentally, the effect of expanding trade among member countries as a result of an FTA, as discussed earlier, is known as a trade creation effect. Regarding the economic effects of FTAs, see, for example, Appleyard and Field (2013).

FTAs or join existing FTAs, in order to overcome the negative effects from exclusion.

A second possibility for the Cabinet Office estimate of the effect of the TPP being an underestimation lies in the fact that the TPP includes wide-ranging contents consisting not only of trade liberalization but also investment liberalization, the movement of people, and others, which are not considered in the model. The expansion of investment resulting from liberalization of investment would have a large effect on the economy due to causing a variety of effects in production, employment, trade, and technology transfers. Indeed, trade and investment liberalization would facilitate the creation and expansion of regional production networks, or supply-chains by multinational enterprises, contributing to economic growth of the region. The movement of people with high levels of ability would also promote economic growth due to enabling efficient production. It should also be noted that trade and FDI facilitation such as simplification of customs procedures and harmonization of product standards, which would be included in the TPP, would promote trade and investment, which in turn contribute to economic growth.

A third possibility for an underestimation is in the fact that the effect of the TPP in triggering domestic regulatory reforms and structural reforms is not included. For example, suppose that liberalization of the agricultural sector were promised in the TPP. The Japanese government is likely to implement regulatory reforms and structural reforms to deal with problems in the agricultural sector such as farmland problems and product distribution problems, in order to increase productivity. As a result, such an increase in productivity would be expected. In sectors other than agriculture as well, if regulatory reforms and structural reforms are promoted by the TPP, a similar effect of increasing productivity could be expected.

Here, the discussion returns to the benefits of the TPP to Japan. The TPP includes the formation of rules in areas in which international rules have not been sufficiently put in place, such as government procurement, competition policy, and intellectual property rights. If rules are established for these areas and they are strictly enforced, Japanese firms would benefit due to it becoming possible to conduct business deployment in a highly transparent, fair, and predictable business environment. For example, with respect to government procurement, an Agreement on Government Procurement was implemented under the WTO, and Japan is a party to this agreement. However, not all WTO member countries are parties to this agreement. Among the TPP negotiating countries, only the US, Singapore, and Canada are signatories to the Agreement on Government Procurement. Consequently, if the TPP successfully includes the rule on government procurement, Japan would become able to enter government procurement markets in the TPP negotiating countries aside from the US, Singapore and Canada, such as Australia and New Zealand. Of course, if in the future the TPP expands from the Asia-Pacific to the whole world, it would become possible to enter government procurement markets across the globe, expanding business opportunities for Japanese corporations.

In arrangements for competition policy, it is expected that competition rules for preventing damage caused by limiting competition such as through cartels would be set, but there is also the possibility of

creating rules for the behavior of state-owned enterprises (SOEs). If such rules are established and, if China joins the TPP in the future, the private firms of Japan and the other TPP members would be able to compete on equal footing with China's SOEs. With respect to intellectual property rights, if rules protecting these rights such as patents and copyright become established and upheld, Japanese businesses, which are experiencing large losses due to counterfeit goods, would be released from those losses and in addition to increasing profits, conducting business overseas would become easy.

We began our discussions of the benefits of joining the TPP by Japan by arguing that the estimated impacts by the Cabinet Office are likely to be underestimates because it did not include many important factors. According to Petri et al. (2012), which incorporates many features that are not considered in the study by the Cabinet Office such as investment and productivity increase, Japan's participation in the TPP would increase Japan's GDP by 2.0 percent, significantly greater than 0.66% estimated by the Cabinet Office.

V. Obstacles to TPP participation

The greatest obstacle to participation in the TPP is the opposition of uncompetitive sectors. Uncompetitive sectors would suffer damage due to a reduction in production and employment resulting from the expansion of imports that would be brought about by the trade liberalization of the TPP. Consequently, in order to avoid this damage, these sectors strongly oppose the TPP. At present, the strongest opposition to the TPP comes from the agricultural sector, which is said to be uncompetitive. The average tariff for agricultural products in Japan is relatively low compared to that of other agricultural product importing countries. What is prominent in the agricultural protection in Japan is the generous protection of certain specific agricultural products through an extremely complicated protection system that combines high tariffs with import quotas. For example, rice (778%), wheat (252%), sugar (379%), and konnyakupotato (1,706%) are subject to a specific rate duty, but are extremely high when converted to an ad valorem duty.⁸ Also, in the Uruguay Round agreement, Japan introduced a mechanism to be able to use special safeguards in the case of damage from sudden and substantial importation.

The agricultural protection policy has been an obstacle to moving forward with FTA (EPA) negotiations thus far by the Japanese government. In the EPA with Singapore, despite minuscule agricultural production in the city-state, Japan excepted agricultural products from liberalization. The treatment of pork became the source of debate during the Japan–Mexico EPA negotiations. Despite the strong request from Mexico that the level of protection for pork imports to Japan should be lowered, Japan went so far as to take the measure of increasing import quotas for beef, chicken, oranges, and orange juice, which Mexico had not requested, but it did not budge for pork. In the EPA negotiations with other countries as well, Japan faced problems with agricultural liberalization. EPA negotiations that faced

⁸ The figures in parentheses have been converted to ad valorem duties. These figures are according to Honma (2010). See same for Japan's agricultural protection policy.

Japan's strong opposition over the treatment of agricultural liberalization include the Japan–Philippines EPA (bananas, rice, wheat, starch, dairy products, beef, pork, sugar, and canned pineapple), the Japan–Thailand EPA (rice, sugar, boneless chicken, and processed chicken), and the Japan–Chile EPA (fishery products and pork). Additionally, the following agricultural products are problematic in the FTA currently being negotiated with Australia and the TPP for example: the treatment of rice for Australia and the US, the treatment of beef and pork for Australia and the US, the treatment of sugar for Australia, and the treatment of dairy products for Australia and the US.

In the TPP negotiations the LDP government made it clear that it tries to exclude five agricultural products (rice, wheat, beef/pork, dairy products, and sugar/starch) from import liberalization. The number of tariff lines covering these five agricultural products amount to 586, accounting for approximately 6% of overall tariff lines.⁹ If Japan attempts to treat these products as exceptions, Japan will not be able to sign the agreement because other negotiating countries are trying to achieve much higher level of trade liberalization.

Among these products with high protection, the treatment of rice is the most difficult to liberalize in Japan, for the reasons that follow. First, rice is a core product with about a 25% share of agricultural production in Japan. Second, from a geographic point of view, rice is produced across Japan. And third, there are many sectors related to rice production. For example, the construction industry, which is involved in public works such as maintaining farm roads and irrigation, politicians, bureaucrats, the machine industry, which provides agricultural machinery, the chemical industry, which provides fertilizer, and the agricultural cooperatives, which provide various services such as funding and distribution of agricultural products and fertilizer, believe that they will incur tremendous damage due to the collapse of the status quo that would result from liberalization and structural reform. Finally, although this applies generally to the agricultural sector rather than just rice cultivation, the fact that a single vote in rural agricultural areas during elections carries greater weight than one in the urban areas (vote disparity) is a reason that agricultural protection, which is the hope of the agricultural sector, is supported politically.

Besides the agriculture sector, the medical service sector is opposing the TPP, arguing that the TPP would destroy national health insurance system in Japan, which is said to have contributed significantly to improving health conditions of the Japanese people. According to them, introduction of market mechanism in determining the pharmaceutical prices and allowing profit-making private company to enter the medical service sector would lead to undermine the foundation of the medical service system in Japan, resulting in breaking down of the national health insurance system.

Another barrier to moving forward with the TPP is the fact that there are almost no politicians who have a positive vision of the future for Japan from a mid- to long-term perspective, and who are persuasive and can get things done. As stated earlier, many politicians are opposed to the TPP. Since the

⁹ See Table 2 for trade liberalization for Japan's FTAs.

greatest objective for politicians is to be elected and re-elected, and to participate in politics in the legislatures, they aim to achieve that through promises to reflect the needs and wishes of their constituents. In such circumstances, even a politician who considers participation in the TPP to be desirable in the mid- to long-term would promote policies protecting the politically powerful agricultural sector. However, the current Abe administration appears different from the earlier administrations. The Abe's LDP won an upper house election in July 2013, after winning a lower house election in December 2012, which enabled Prime Minister Abe to come back to become a leader again. This means that he will be free from the election for the next two and a half years, and thus he is in a position to pursue his policies without worrying about the next election.

It was argued that the problem in the obstacles to moving forward with the TPP lie with the politicians, but to get right down to it, the problem lies with the citizenry that supports those kinds of politicians. The people have not grasped the significance of the TPP or the significance of market opening and structural reforms. In the backdrop to this lies the fact that information about the benefits of such policies has not been disseminated, and more specifically, the fact that reports and education on this is lacking.

The people who would be harmed by the TPP are just a subset of the population, but since that harm would be extremely severe in the form of falling income and unemployment, they form a strong opposition movement in order to avoid such circumstances. Indeed, the forces opposing the TPP are making appeals for the opposing view centered on publications such as books and newspapers for the general populace, and the distribution of pamphlets for politicians like the members of the national legislature. In an anti-TPP pamphlet that the author has on hand, there are shocking and inflammatory slogans such as "Through liberalizing investment, Japan and Japanese corporations will be eaten alive by foreign capital," "The collapse of the regional economy due to opening government procurement to foreign corporations," and "Even if Japan joins the TPP, it will just be force-fed disadvantageous rules." In this way, an argument is deployed against the TPP, the contents of which have yet to be decided as they are being negotiated. Naoi and Urata (2014) showed that people's perception of the TPP is very much influenced by the active campaign by the opposition groups based on the Google search trend data.

Meanwhile, although it is true that the people who would benefit from the TPP would be able to sense the benefits through being able to purchase imported goods at a low cost, the degree to which they would feel this is not so large. Also, even though economic growth would be promoted, it would be hard to recognize that this was due to the TPP. As a result, even though they would be in favor of the TPP, this does not really lead to a strong movement. Of course, there is a movement in favor of the TPP consisting of the industrial sector, for which increased exports would be expected through participation in the framework, but it is much smaller in scale and intensity than the opposition movement. This asymmetry in harm and benefit is another obstacle to moving forward with the TPP.

VI. Towards participating in and moving forward with the TPP

To move forward with the TPP, it is necessary to overcome the barriers discussed in the previous section. In this section, a method to do that is considered. As a response to the opposition by those who would be harmed by the TPP, the government basically needs to form and effectively operate a safety net that can minimize the damage. Specifically, in response to income reduction and unemployment resulting from import liberalization under the TPP, it is necessary to provide temporary income compensation and education and training to find a more productive job. Under the Democratic Party of Japan, former leader Ichiro Ozawa had called for promoting FTAs together with individual household income support as a set, but before the Upper House election in 2007, he abandoned the FTA promotion and only pledged the individual household income support, which later was implemented. With events proceeding in this manner, the TPP and FTAs will not progress. A safety net for import expansion has been built as a trade adjustment assistance in the US and South Korea, and is being implemented. Japan should take into account the experiences of these countries and implement a similar system.

To move forward with the TPP, it is a necessary condition for the Japanese people, and among them especially the politicians, to have a recognition of the important role the TPP would play in realizing social stability and economic prosperity in the future of Japan. To satisfy this necessary condition, first, it is necessary for there to be the recognition that the Japanese economy is in an extremely severe situation. Specifically, it is necessary to disseminate information of the sort presented in Section II to the people and the politicians. Next, it is necessary for the citizenry to understand that the TPP is an effective means for escaping from the severe situation. To do this, theoretical explanations lack persuasiveness, and so it is necessary to explain using examples of the benefits that Japan has achieved in the past through liberalization and structural reforms. For example, it should be explained in an easily understood manner using examples of success through trade liberalization including the experience of import liberalization for beef, oranges, and cherries, which had moved forward amidst strong opposition. Also, it is necessary to convey the fact that one of the important factors behind high growth in the countries of East Asia including Japan was the promotion of trade liberalization and structural reforms. Meanwhile, when building the safety net towards moving forward with the TPP, the mistake must not be repeated of when six trillion yen of subsidies, which were provided to the agricultural sector as a countermeasure for the partial liberalization of rice during the Uruguay Round, were spent on paving agricultural roads and excavating hot springs instead of on increasing the competitiveness of the sector or education and training for farmers.

It is necessary to provide information on the benefits of the TPP as discussed above and the response to the damage that could occur as a result of the TPP using a variety of opportunities such as the media, education, and public lectures in an easily understood manner. In particular, debates with those who oppose the TPP should be taken advantage of in an effective manner.

Up to here, the debate over going forward with the TPP has been discussed, but finally the impor-

tance should be emphasized for Japan to actively participate in and promote the TPP in the Asia-Pacific as well as RCEP as an economic integration of the Asian countries. The TPP not only liberalizes and facilitates border measures pertaining to trade and investment, but also goes so far as to build economic rules for domestic economic activities. By contrast, in the RCEP, economic cooperation for resolving developmental disparities and liberalizing trade and investment are important issues in East Asia, where there are many developing countries. Japan is one of few countries that can participate in building these two frameworks by playing an important role. Japan must seize this opportunity and not merely revive its own economy but also contribute to the economic prosperity of the Asia-Pacific region. Economic prosperity in the Asia-Pacific would promote further revitalization and growth in Japan. The prosperity of the Japanese economy and of the economy of the Asia-Pacific are strongly inter-related.

VII. Concluding Remarks

The Asia-Pacific region and the emerging/developing countries of ASEAN and China that are located in East Asia have been recording high growth in recent years, and have been called the growth center of the world. Although there is the high likelihood that the growth rate of these countries will slow in the future, it is nevertheless anticipated that there will be higher growth compared to the other regions of the world. Meanwhile, despite being in East Asia, the economy of Japan does not have a bright future outlook because of a number of structural problems including declining and aging population, huge accumulated government debt, and closed economy.

Having noted the difficult situation in which Japan has been trapped, Japan can still recover and regain economic growth if an appropriate set of economic policies were implemented. The first two arrows of Abenomics, aggressive monetary policy and flexible fiscal policy, have produced expected positive effects. What has to be done now is to shoot the third arrow, that is, growth strategy. Appropriate and effective growth strategy should include drastic domestic structural reform such as agricultural reform and substantial market opening in goods, services, capital, and people. One effective way to achieve these goals is to participate in the region-wide FTAs including the TPP and the RCEP. Now that Japan is participating in their negotiations, Japan needs to contribute to speedy conclusion of these negotiations. Japan should take a leadership role in these negotiations by coping with domestic opposition with appropriate policies including provision of safety net for negatively affected people. Indeed, the establishment of the TPP and the RCEP would lead to the FTAAP, an APEC-wide FTA, which in turn would lead to a world-wide FTA or a global free trade system. It is important for Japan and other Asia-Pacific countries/economies to realize that the creation of these arrangements would contribute to economic growth of these countries/economies.

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